

## Message Text

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SUBJECT: GOS DECREES WAGE AND PRICE CONTROLS AS WELL  
AS TAX REFORM AND OTHER MEASURES

REF: MADRID 5368, NOV 23, 1971

1. SUMMARY - IN A MULTIFACETED ATTACK O INFLATION, INCIPIENT RECESSION, AND "SOCIAL INJUSTICE," THE GOS ISSUED A COMPREHENSIVE DECREE-LAW DECEMBER 1, 1973. INCLUDED IN THE WIDE-RANGING DECREE WAS A FREEZE ON REAL WAGE INCREASES THROUGH 1974 AS WELL AS CONTROLS ON THE PRICES OF SEVERAL KEY COMMODITIES, AND A LIMIT ON DIVIDENDS. TAKING ADVANTAGE OF THE SITUATION THE GOVERNMENT ALSO ANNOUNCED SEVERAL REFORMS IN THE TAX SYSTEM, SOME OF WHICH ARE INTENDED TO RAISE REVENUES WHEREAS OTHERS ARE AIMED AT STIMULATING THE ECONOMY AND A MILD REDISTRIBUTION OF THE TAX BURDEN. END SUMMARY.

2. PERHAPS MOST SIGNIFICANT IN THE PACKAGE OF ECONOMIC MEASURES ANNOUNCED BY THE GOVERNMENT WAS THE ONE THAT LIMITED OFFICIAL USE  
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WOULD LIMIT INCREASES IN SALARIES TO THE INCREASE IN THE COST OF LIVING. NO COLLECTIVE CONTRACTS WILL BE APPROVED BY THE GOVERNMENT FROM NOW ON AND THROUGH 1974 WHERE THE INCREASE IN WAGES WILL BE IN EXCESS OF THE GROWTH IN THE

COST OF LIVING INDEX PUBLISHED BY THE GOVERNMENT STATISTICAL AGENCY OVER THE PERIOD SINCE THE SIGNING OF THE PREVIOUS CONTRACT. (AN EXCEPTION TO THIS RULE PERMITS A 5 PERCENT WAGE INCREASE ABOVE THE COL INCREASE IF THE ENTIRE COST WILL BE ABSORBED BY THE COMPANY AND NOT HAVE AN EFFECT ON PRICES). THIS MEANS THAT REAL WAGE INCREASES WILL, IN EFFECT, BE HELD TO ZERO. ON THE OTHER HAND, THE HISTORICAL AVERAGE FOR ANNUAL REAL WAGE INCREASES IN SPAIN SINCE 1965 HAS BEEN 7 PERCENT. ADJUSTMENT BY LABOR TO THIS NEW MEASURE WILL THEREFORE BE A VERY DIFFICULT PROCESS. THE 1973 OFFICIAL COST-OF-LIVING INDEX WILL PROBABLY RISE 15 PERCENT, SO THAT THE WAGE CONTRACTS SIGNED IN THE NEAR FUTURE WILL BE HELD TO THIS FIGURE. AS AN INDICATOR OF WHAT THEY OTHERWISE MIGHT BE, CHRYSLER JUST SIGNED (BEFORE THE NEW DECREE) A COLLECTIVE AGREEMENT FOR ITS 13,000 EMPLOYEES GRANTING THEM A 25 PERCENT INCREASE. SINCE THE CONTRACT HAD NOT YET BEEN APPROVED BY THE GOVERNMENT WHEN THE NEW DECREE WAS ISSUED, CHRYSLER MANAGEMENT IS FEARFUL OF THE LABOR UNREST CONSEQUENCES WHEN (AND IF) THE GOS DISAPPROVES OF THE MAGNITUDE OF THE CONTRACTED WAGE INCREASE.

3. DIVIDENDS WILL BE LIMITED FROM THE PRESENT UNTIL THE END OF NEXT YEAR TO AN AMOUNT NOT TO EXCEED THE AVERAGE OF THE PAST TWO YEARS. WHILE ON THE SURFACE THIS MAY APPEAR TO BE A SHARING OF THE AUSTERITY BURDEN, IT REALLY IS NOT. THIS IS BECAUSE THE PAST TWO YEARS HAVE BEEN EXCEPTIONALLY GOOD ONES FOR BUSINESS WITH CONSEQUENT HIGH DIVIDENT PAYMENT RATES, WHEREAS NEXT YEAR PROMISES TO BE A RELATIVELY POOR ONE WITH EXPECTED DIVIDENDS TO BE DOWN FOR NATURAL CYCLICAL REASONS.

4. PRICE CONTROLS ARE CALLED FOR IN THE DECREE-LAW THAT WOULD LIMIT INCREASES ON A SPECIFIED LIST ("PRECIOS AUTORIZADOS") OF 82 GOODS AND SERVICES TO 3 PERCENT OVER THE COURSE OF 1974. ANY PRICE INCREASE ABOVE THIS RATE WOULD REQUIRE THE APPROVAL OF THE COUNCIL OF MINISTERS. THE LIST INCLUDES MEAT, WHEAT, SUGAR, AUTOMOBILES, CEMENT, LIMITED OFFICIAL USE  
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FUELS, HOTELS, ETC. THE INCIDENCE OF THESE ITEMS OVER THE COL INDEX IS SAID TO BE 30 PERCENT. A SECOND LIST ("VIGILANCIA ESPECIAL") OF 49 ITEMS RUNNING FROM "ARROZ" TO ZINC WILL BE SUBJECT TO A LOOSER AND VAGUER CONTROL. IN THIS CASE NO SPECIFIED LIMITS ON PERMISSIBLE INCREASES ARE SET BUT RATHER IT STATES MERELY THAT THEY SHALL BE "WATCHED." IN ANY CASE, IN ADDITION TO THE FOREGOING, SERVICES AND INDUSTRIAL PRODUCTS WILL BE LIMITED TO INCREASES THAT REFLECT ACTUAL INCREASES IN COSTS OF RAW MATERIALS OR WAGES. GOVERNMENT INTERVENTION PRICE LEVELS FOR FOOD PRODUCTS ARE LIMITED TO A 6.25 PERCENT INCREASE. OTHER FOOD PRODUCTS ARE LIMITED TO A 6 PERCENT INCREASE. A NEW

GOVERNMENT APPARATUS IS TO BE SET UP TO ADMINISTER THE PRICE CONTROL MECHANISM. THAT THIS CURRENT ATTEMPT AT PRICE CONTROL WILL BE ANY MORE SUCCESSFUL THAN THE PREVIOUS INEFFECTIVE ONES REMAINS TO BE SEEN; PAST EXPERIENCE WOULD LEAD TO A PESSIMISTIC CONCLUSION.

5. A MODERATE RESTRUCTURING OF THE TAX SYSTEM, WHICH COULD BE LABELED A MINI-REFORM, SEEMS MORE REAL IN TERMS OF ITS PROBABLE EFFECTS. FOR THE FIRST TIME PERSONAL CAPITAL GAINS ("PLUSVILIA") RESULTING FROM STOCK MARKET OR REAL ESTATE OPERATIONS WILL BE TAXED. ON THE OTHER HAND, TAXES ON SALARIES ("IMPUESTO SOBRE LA RENTA DEL TRABAJO PERSONAL") WILL BE REDUCED FROM 14 TO 12 PERCENT. PRESUMABLY THE COMBINATION OF THESE TWO MEASURES WILL EASE THE TAX BURDEN SLIGHTLY ON THE LOWER BRACKETS AND INCREASE IT ON THOSE IN THE UPPER INCOME RANGES.

6. AN INVESTMENT TAX CREDIT SIMILAR TO THAT USED SO SUCCESSFULLY IN 1972 (SEE REFTTEL) TO STIMULATE INVESTMENT WAS REESTABLISHED. IT PROVIDES FOR A REDUCTION IN CORPORATE TAXES BY AN AMOUNT EQUAL TO 7 PERCENT OF NEW INVESTMENT CONTRACTED BEFORE 30 JUNE 1974. WORRIED BY AN EXPECTED SLUMP NEXT YEAR, THE GOVERNMENT APPARENTLY FELT IT WISE TO ANTICIPATE AND BREAK OUT A PROVEN EXPANSIONARY TOOL.

7. BY THE LANGUAGE OF THE NEW DECREE-LAW, THE GOVERNMENT IS EMPOWERED TO (A) "DEVELOP AND AUTHORIZE IMPORTS," (B) "LIMIT AND SUSPEND EXPORTS," AND (C) MODIFY THE TARIFF LIMITED OFFICIAL USE  
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STRUCTURE AND BORDER TAXES IN ORDER TO "REGULATE" PRICES. OF COURSE, THEY HAVE ALWAYS BEEN ABLE TO DO THIS; THE DISAPPOINTMENT IS THAT THEY DID NOT MAKE A SPECIFIC MOVE ON ITEMS (A) AND (C), WHICH WOULD OFFER CONCRETE HELP TO THEMSELVES AS WELL AS U.S. EXPORTS THROUGH IMPORT LIBERALIZATION AND TARIFF REDUCTION ACTION.

8. COMMENT: THE PACKAGE OF ECONOMIC MEASURES (WHICH ALSO INCLUDED SOME LESSER ONES NOT DESCRIBED ABOVE) WAS THE CENTER OF MUCH HEATED BARGAINING WITHIN THE CABINET. FINANCE MINISTER BARRERA DE IRIMO WAS SAID TO HAVE OFFERED HIS RESIGNATION IF HIS PROPOSALS WERE NOT ACCEPTED. CRUCIAL WAS HOLDING THE LINE ON WAGES; SEVERAL MINISTERS WERE HESITANT TO GO ALONG WITH THIS POLITICALLY TOUCHY POLICY. THE PUBLIC SALES PITCH ON THIS NOW IS THAT THE PURCHASING POWER OF THE SPANISH WAGE EARNER IS BEING "PROTECTED" BY THE GOVERNMENT'S PROGRAM. THE PRICE CONTROL MEASURES SEEM DOOMED FROM THE OUTSET DUE TO THEIR COMPLEXITY AND IMPOSSIBILITY OF ENFORCEMENT, AND WERE ADDED MOST LIKELY FOR COSMETIC PURPOSES ONLY. THE FINANCE MINISTRY HAS LONG

WANTED TO DO SOMETHING ON TAX REFORM AND SEIZED THE  
OPPORTUNITY TO PARTIALLY MOVE IN THIS CONTROVERSIAL  
DIRECTION BY FILLING IN THE GLARING LOOPHOLE ON CAPITAL  
GAINS AND THEREBY BRING SPAIN CLOSER TO A MODERN FISCAL  
SYSTEM.

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